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First National City Bank
Monthly Letter

Business and Economic Conditions

New York, June, 1958

General Business Conditions

THE business reports in May have included signs of betterment, which have improved business sentiment even though they supply no proof that a real turning point in the recession has been reached. For some time business observers have been talking about a "bottoming out" of the decline, and the first substantial grounds for believing that this is happening now seem to be appearing. In April the seasonally adjusted rates of retail sales, housing starts, and personal income recovered moderately from their first quarter lows. In May insured unemployment has declined and a contra-seasonal upturn in steel output, together with an increase in automobile production, may have been sufficient to arrest the drop in the index of industrial output.

The flow of new orders to manufacturers in April remained above the February low, although it was down somewhat from March, when heavy defense ordering boosted the total. Shipments showed little change in April, but liquidation of factory stocks – primarily in durable goods industries – continued at the same rapid rate as in the first quarter. As a result, the ratio of stocks to sales declined in April for the first time since the recession started, indicating the progress being made in bringing stocks more nearly into line with current business volume.

By April, the Federal Reserve index of industrial production (seasonally adjusted, 1947-49 = 100) had dropped for eight months in a row and at 126 was 20 points, or 14 per cent, below its February 1957 peak. Steel production in May averaged 11 per cent above April, and operations which had fallen as low as 47.1 per cent of capacity at the end of April were scheduled at 56.5 per cent in the last week of May, the highest rate since mid-January. Passenger car output is estimated to have risen 7 per cent in May over April, and is scheduled to continue at approximately the May rate during June. Other fragmentary statistics point to a reduced rate of decline in over-all production in May and June, if not a sidewise movement.

It would be wrong to place too much emphasis on May-June developments. The rise in steel output represents in part the replenishment of skimpy inventories by steel users who anticipate a rise in steel prices about July 1, when automatic wage increases for steel workers go into effect. After that date, demand may lapse again as these anticipatory inventories are used up. Automobile manufacturers are already planning lengthy shutdowns during the summer to bring dealers' stocks of new cars down to reasonable proportions before the introduction dates for new models – reportedly much earlier this year than last. As in other slack years, the summer will provide many industries with the opportunity for extending the usual vacation shutdowns an extra week or two for inventory adjustment, repairs, or other purposes.

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Between the summer layoffs and the normal seasonal expansion of the labor force, unemployment is likely to be large throughout the summer. Secretary of Labor Mitchell estimates that unemployment may rise to more than 6 million persons in June, despite a sizable seasonal rise in employment. Over 2 million new workers will be entering the labor force at the end of the school year, and this time a large proportion of them will fail to find jobs this summer.

Recession in Transition

Despite the uncertain outlook, the signs of a "bottoming out" should not be disparaged. They would be expected to follow at some point the record-breaking inventory liquidation and the rapid curtailment of industrial output during the last few months. It is quite possible that this summer's flurry of plant shutdowns, inventory reductions, and increased unemployment will mark the climax of the decline. Before long we should reach a point where changes in inventory demand tend to support rather than depress the economy. This does not mean an end to inventory liquidation but a slowdown in the rate of liquidation.

Meanwhile business expenditures on new plant and equipment must be expected to slacken further. Business investment plans indicate a continued decline into 1959, as old projects are finished up but new capital programs in all too many cases are being shelved until the economic climate is more favorable.

Consumers Holding the Line

So far the over-all decline in consumer income has been relatively slight – 1.3 per cent from the August 1957 peak through April 1958 – but uneven in its impact. The importance of the "automatic stabilizers" is demonstrated by the fact that fully half of the $8.4 billion drop in wages and salaries has been offset by increases in unemployment insurance, social security, and veterans' benefits.

These stabilizers do not continue indefinitely, however, as the 230,000 jobless persons whose unemployment benefits expired in April are well aware. (In April, 1.9 million persons – almost 4 of every 10 unemployed – had not worked since late 1957.) The wonder is that heavy and prolonged unemployment has not affected buying more than it has.

Consumer expenditures in the first quarter of 1958 were at a seasonally adjusted annual rate of $281.2 billion, off less than 1 per cent from the $283.6 billion rate at the third quarter peak and up from $276.7 billion in the first quarter of 1957.

Even more remarkable is the fact that consumer cash outlays have risen steadily despite the recession. Total cash outlays are equivalent to total personal consumption expenditures less net extensions of consumer credit. Since the third quarter of 1957 consumers have stepped up their cash outlays moderately despite a decline in disposable income.

Consumer Expenditures and Cash Outlays

Seasonally adjusted annual rates, billions of dollars

Quarter	Personal consumption expenditures	Less: Net extensions of consumer credit	Consumer cash outlays
1957 I	276.7	3.4	273.3
II	278.9	3.0	275.9
III	283.6	2.9	280.7
IV	282.4	1.8	280.6
1958 I	281.2	—0.9*	282.1

*Net repayment of consumer credit.

The net repayment of consumer debt in the first quarter has also been accompanied by an increase in liquid savings. More was saved through mutual savings banks, savings and loan associations, and Series E and H Savings Bonds than in the corresponding 1957 quarter. Consumers in general thus appear to be restoring their credit and improving their liquidity, just as many corporations and banks are also doing today. In this manner, a firmer foundation is being laid for sales recovery when it does show up.

Although over-all levels of consumption have been maintained, consumers have shifted their spending patterns during the downturn. Durable goods purchases dropped 10 per cent between the third quarter of 1957 and the first quarter of 1958, but outlays for food increased 1 per cent and for services 2 per cent.

It might be argued that some of these shifts were involuntary because of rising prices – that consumers paid more dollars for the same quantity of services and a slightly lower quantity of food than they did in the third quarter, and had less left for durables. To some extent, decisions to hold off on new durable goods purchases may have been accompanied by increased expenditures for repair services on old durable equipment.

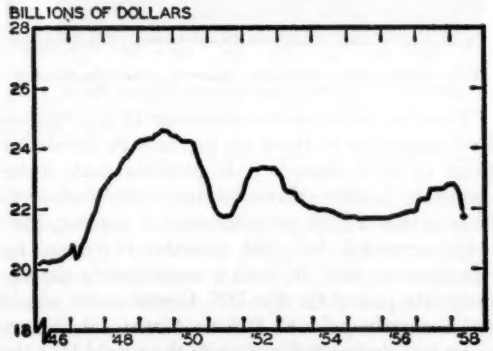
Whatever the motivation for this shift in spending patterns, it is based on the inescapable fact that after a decade or more of heavy consumer buying, families are well-stocked and many types of purchases can be deferred without undue hardship. It will be the major task of business in the months ahead to stimulate consumers' imaginations, and attract their buying interest by providing the right type of goods at prices they can and will pay.

The Price of Gold

As has happened several times before in the postwar years, the financial markets this spring have been swept by rumors that the U.S. dollar price for gold – $35 an ounce since 1934 – was going to be raised. Such a usually responsible organ as *The Economist* of London has gone so far as to suggest that the price should be trebled. Stocks of gold mining companies have been in strong demand in the London and Canadian markets and also to some extent here. Counselling a healthy caution, on the other hand, is the fact that speculative fingers have been burnt so many times by gold rumors that proved false.

An increase in the $35 price will almost certainly figure in the discussions of finance ministers at the British Commonwealth conference in September and at the International Monetary Fund meeting in October. South Africa, the largest producer, has been pressing the case for many years and the idea of a higher price is now receiving widened support in the Commonwealth which also of course includes some other countries with important gold production – Canada and Australia.

The idea has more superficial plausibility now than on the earlier occasions when a gold price advance has been discussed. We have had chronic inflation since the war and indeed most of the time since 1933-34 when the price was raised from $20.67 to the present $35. Each turn of the inflation spiral adds to the danger that some day U.S. gold policy may need to be reconsidered. But this is not by any means to say that the time for a price change has arrived. The Federal Reserve has taken a series of measures which defer the need: the credit squeezes of 1953 and 1957 which checked inflation; and the reductions in bank reserve requirements in 1953-54 and again this year which make more economical use of the U.S. gold reserves.



U.S. Gold Stock, Monthly 1946-58
(Last plotting May 22)

One factor that has made a gold price increase seem plausible has been a $1.1 billion drain on the U.S. gold stock dating back to mid-February. This represents gold acquired by foreign governments and central banks with the authorization of the U.S. Treasury and at the official price of $35 an ounce. As the chart shows, this is not the first time in the postwar period that the U.S. has experienced a major outflow. It is the third such movement.

Third Postwar Outflow

The first outflow, involving a total loss of $2.9 billion, began in September 1949 after devaluation of the pound and other foreign currencies to more realistic relationships to the dollar. The movement was intensified in 1950 when the outbreak of the Korean War touched off a scramble for raw materials which poured dollars abroad. About half of this gold returned in 1951-52 as our balance of payments improved with the slump of raw materials prices and a reduction of purchases for stockpiles.

The second postwar decline in the U.S. gold stock, amounting to $1.7 billion, ran from August 1952 to April 1955. This reflected heavy U.S. military spending abroad at a time when the increased self-sufficiency of foreign countries was reducing their dollar import needs.

During 1956-57 the U.S. gold stock nearly recovered to the peak level of 1952, reflecting principally acquisition of gold sold by the International Monetary Fund and the United Kingdom to meet financial pressures originating out of the Suez crisis.

The new outflow that began in February has brought the U.S. gold stock down to $21.7 billion, duplicating the previous postwar low. This sum still exceeds the combined total of all other countries' known gold reserves.

Of the $21.7 billion U.S. gold stock, $600 million is held in Treasury reserve accounts and $21.1 billion as backing for gold certificates held by the Federal Reserve Banks as their reserves. As the following table shows, only $11.4 billion of the Reserve Banks' holdings of gold certificates are needed to satisfy the legal requirement that they hold gold or gold certificates

Legal Reserve Position

Twelve Federal Reserve Banks Combined, as of May 21, 1958

Total Gold Certificate Reserves		$21,156,898,000
Federal Reserve Notes	$26,436,591,000	
F.R. Total Deposit Liabilities	19,264,793,000	
Deposit & Note Liabilities Combined	$45,701,384,000	
25 Per cent Gold Reserve Requirement		11,425,846,000
Surplus Reserves		$ 9,731,552,000
Federal Reserve Ratio		46.3%

equivalent to 25 per cent of their note and deposit liabilities. This leaves well over $9 billion surplus gold reserves which can be used to redeem in gold the dollars held by foreign governments and central banks.

A Run on the Dollar?

With beyond $9 billion of surplus gold reserves there is obviously no question of any practical need to consider either raising the gold price or suspending U.S. Treasury sales at $35 an ounce and permitting the price to rise in free markets.

To be sure, the question might be precipitated if a run on the dollar developed and foreigners tried to convert all their short-term dollar assets into gold. On the best estimate available, foreign governments and central banks hold $8 billion on deposit in U.S. banks or in short-term investments like U.S. Treasury bills quickly convertible into cash. Besides this, private business firms and individuals abroad are estimated to hold $5.8 billion in short-term dollar assets. These cannot be used directly to acquire gold in the United States but could in some measure become available to foreign governments and central banks for conversion into gold.

The existence of these foreign assets, however, does not imply that any large scale conversion into gold is either likely or practicable. How many dollars foreigners need to finance essential commerce no one can say. But the amount surely runs to many billions. The conclusion emerges that, while the outside world theoretically could force a change in U.S. gold policy, it would be at the cost of upsetting world trade and finance.

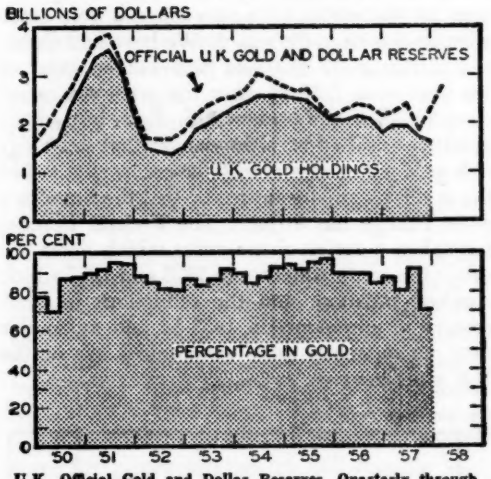
Questioned on the subject by the Senate Finance Committee last July, George M. Humphrey, then Secretary of the Treasury, suggested the possibility of an embargo on gold sales if foreigners attempted to convert all their dollars into metal. Such an embargo would doubtless result in at least some temporary rise above $35 in free markets abroad until the policy of the United States Government was redetermined. There would be no necessary assurance that an embargo would be followed by a rise in the U.S. price.

A Simple Explanation

Some observers express a suspicion that some foreign nations are converting dollars into gold as a means of bringing pressure to bear on the U.S. Government to raise the price. Simpler explanations, however, are closer at hand. The biggest taker of gold has been the United Kingdom. This reflects the dramatic recovery in the U.K. balance of payments following the passing of the Suez crisis, the successful defense of the pound last September, and the cheapening of imports which has come with the weakening of world raw materials prices.

The United Kingdom's gold and dollar reserves have risen $641 million in the first four months of 1958 to a level more than $1 billion above their $1,850 million low of last September. As the chart shows, at the close of last year gold made up only 70 per cent of U.K. gold and dollar reserves, considerably below the percentage which has prevailed in recent years. The recent takings of gold by the British monetary authorities will tend to restore the gold ratio to more normal levels.

As more general considerations, the incentive for foreign governments and central banks to hold short-term dollar investments has been weakened by the fall of short-term open market money rates from 3 to 4 per cent last summer to around 1 per cent now. Moreover, it must be recognized that nations abroad in the aggregate continue to accumulate dollars as a result of our heavy spending and lending abroad. It is not surprising that some of this money should be converted into gold which represents the foundation for the world financial structure.



U.K. Official Gold and Dollar Reserves, Quarterly through December '57 Except Total Reserves through March '58

There is no evidence whatever of any organized campaign to force an increase in the dollar price of gold though it is possible that, if responsible finance officers abroad should come to believe that a gold price increase is coming, they might scramble for gold in order to realize revaluation profits. In such a contingency the appropriate policy for the U.S. Government would be to supply gold at $35 an ounce, let the reserve run down, and convince the world that the price can and will be held.

Weakening Balance of Payments

Foreign dollar holdings in the aggregate doubled between 1949 and 1956, levelled out with the Suez crisis, and now again are resuming their rise. Our exports have dropped back from their record $20 billion annual rate in the first half of 1957. In addition, renewed confidence in the stability of the pound sterling has led to a reversal of the speculative capital movements of last year. Money that fled London for New York and Frankfurt has been coming back. In a letter replying to a request by Senator A. Willis Robertson for comment on the decline in the gold stock, Federal Reserve Board Chairman William McChesney Martin pointed out that:

> In 1957 many important countries of the free world suffered a substantial deficit in their balance of payments, in part because of excess imports due to domestic inflationary pressures and in part because of capital flight due to rumors of an impending devaluation of the pound sterling.
>
> By the end of the year, inflationary pressures had been brought under control in most major foreign countries and the financial community had recognized that the pound sterling was not going to be devalued.
>
> For these reasons the balance of payments of the rest of the free world with the United States improved both on current account (since excess imports of many foreign countries were eliminated by the restoration of financial equilibrium) and on capital account (because the capital that fled foreign countries, and in particular the United Kingdom, started to return).

As the table below shows, U.S. exports have dropped from the swollen $5.1 billion in the first quarter of 1957 to $4.1 billion in the first quarter of 1958. This decline in exports has been a contributing factor to our recession. But, contrary to many expectations, the recession has not affected import volume to any important degree. The result is that our favorable trade balance has fallen almost $1 billion from the first quarter of '57.

U.S. Balance of Payments
(Billions of Dollars)

	1957				Est. 1958
	1st Q	2nd Q	3rd Q	4th Q	1st Q
Merchandise exports	5.1	5.1	4.4	4.6	4.1
Merchandise imports	3.3	3.3	3.2	3.4	3.2
Trade balance, net	+1.8	+1.8	+1.2	+1.2	+0.9
U.S. defense & aid expend.	−1.3	−1.4	−1.1	−1.1	−1.1
Net balance on services	−0.1	−0.2	−0.4	—	−0.2
Net loans, capital movements, etc.	—	−0.3	+0.7	−0.4	−0.3
Other transactions, net	−1.4	−1.9	−0.3	−1.5	−1.5
Balance of payments	+0.4	−0.1	+0.4	−0.3	−0.6

Meanwhile, U.S. defense expenditures abroad and foreign economic aid continue to supply foreigners with more than $1 billion every three months. In addition, foreign borrowing in the American capital market has been unusually heavy. Apart from the World Bank, which has borrowed $300 million since the beginning of the year, foreign borrowers in the U.S. — Canada, Australia, Italy, Belgian Congo, the Federation of Rhodesia and Nyasaland, the Union of South Africa, and the cities of Amsterdam and Oslo — have raised $500 million.

In terms of the balance of payments, we are suffering effects from high and rising wages and taxes, which handicap industry in meeting world competition, as well as from over-generosity in foreign aid programs, which weakens respect abroad for our money and encourages thoughts of possible devaluation. If the moderate loss of gold we have had reminds us of those facts it will have served a valuable purpose.

The Recession Argument

Some observers abroad are inclined to think that the U.S. Government may be led to raise the price of gold as an anti-recession measure. The direct benefit of such an increase to American business would be minor for gold mining is of rather negligible importance. An increase would of course be helpful to gold-producing countries. They would gain buying power at the expense of nonproducing nations.

The last — and only — time the dollar price of gold was significantly changed was during the great depression. The situation was quite different. Then the Federal Reserve had been embarrassed by gold shortage in fighting the depression. Now the Federal Reserve holds $9.7 billion excess gold reserves; gold is not a limiting factor in applying measures to increase money and credit supplies as aids to recovery. In 1934 the 69 per cent increase in the gold price was designed to raise our prices generally — an object of dubious merit in the present instance. Then our policy was selfish and nationalistic; we sought to improve our trade position at the expense of other nations and incidentally threw the world currency system into a turmoil from which — with the war — it has never fully recovered. Now we have a higher respect for international responsibilities.

The dollar is used more commonly than gold in financial settlements among the nations and it is in our interest that this should be so. Any alteration in the ratio of gold to the dollar would have large implications, running far beyond a bonanza to gold miners. For example, an increase in the dollar price would penalize foreign governments, banks, and individuals who have trusted the dollar; it would hand out windfall profits to those who have not. The intricate world-wide machinery of industry and trade needs credit and trust as lubricants. The very talk of a rise in the dollar price of gold is a threat to prosperity.

The sooner the question ceases to disturb men's minds the better.

Any nation can raise the price it will pay in its own currency for gold. An increase in the price of gold is tantamount to – or a method of –currency devaluation. Many nations, sometimes more than once, have devalued their currencies over the postwar period. They have done so reluctantly, because they had to. It is natural that currency devaluations should be undertaken with greatest reluctance. For devaluation generally means higher prices and higher prices are unpopular. The United States is no exception to this rule. The dollar price of gold will scarcely be advanced unless the need to do so becomes imperative and inescapable.

Gold on the Escalator?

The most imposing argument for an increase in the gold price is that the growth of world trade plus inflation create a need for more gold reserves which can be provided by marking up the price, world-wide. *The Economist*, for example, draws a conclusion that the price of gold should be trebled because dollar prices of many commodities have trebled over the past 20 years or since the last world-wide round of gold price increases was completed. This is getting the cart before the horse; the inflation of the past 20 years got its gold base out of the excessive rise in gold price and enormous stimulation to gold production. If the gold price were to be related to commodity prices and marked up every time commodity prices rose, it would cease to have use or meaning as an official currency standard. The use of any fixed gold price is to check excessive credit expansion and rising commodity prices.

Any comparison of the gold position today with twenty years ago would show a scarcity because we have indulged in so much inflation in the meantime. But to raise the price of gold dramatically at this juncture would be to destroy faith in all the currencies of the western world. In the 1930's gold price increases had a legitimate object of encouraging recovery of a painfully and inequitably deflated world price structure. Inflation today is barely mastered. We should have no wish to give it a longer lease on life.

Controversy Over Atomic Power

Pushed into the background by international crises and the debate over the state of the national economy has been yet another controversy: The dispute over development of peaceful atomic power.

Though less spectacular, it has nonetheless been the subject of lively contention in the Congress. At issue is the role of private enterprise and the part to be played by the Government in the dawning atomic age.

The atom controversy, despite its importance, is possibly the least understood on the domestic scene. Even those who try to keep informed about public issues are sometimes a trifle bewildered. This is understandable. Harnessing the atom to produce electricity is an abstruse subject with a scientific jargon of its own. On top of that, the Government, until a few years ago, monopolized atomic energy and shrouded its development in secrecy.

Confusion has been compounded by charges and countercharges over our rate of progress – or lack of it. Some of the controversy, of course, reflects honest differences of opinion among competent and thoughtful people in a field still in its infancy. But much of it stems from cleavages in political and economic philosophies as the atom debate has boiled over into the political arena. To further complicate the matter there is the opinion, held by those who advocate government "crash programs," that unless we "do something big" Russia will beat us in developing large-scale atom power plants and score another major propaganda victory. Finally, there is the consideration of developing good will under President Eisenhower's "Atoms for Peace" program by increasing electric energy resources of fuel-needy and underdeveloped nations.

Reduced to its essentials, the complicated controversy turns on two major questions: First, does private industry or Government offer the better means for tapping this nuclear powerhouse (the energy potential of one pound of uranium equals energy from three million pounds of coal) for the beneficial use of mankind? Second, how fast should it be done?

Demands for More Public Power

Prior to 1954, the nation's atomic energy program was entirely in the hands of the Atomic Energy Commission (AEC), which had been concentrating its efforts on other than nuclear power reactors. The Cole-Hickenlooper Atomic Energy Act became law in the summer of 1954, removing the shackles of government monopoly and encouraging the participation of private industry in the atomic energy program. Though still exercising strict control and supervision, the AEC, in effect, instituted a "partnership" with industry.

Almost continually since then, those who favor government development of the atom have sharply criticized private industry for not making

fast enough progress, and thus contributing to "an atomic power deficiency in this country."

For example, Senator Albert Gore of Tennessee, author of a bill last year that called for the Government to build $400 million of atomic power plants and a bill at this session authorizing expenditures of $1 billion for a wide range of nuclear projects, complained on January 9: "Today the U.S. is further behind in the actual construction and operation of large-scale atomic power plants than ever before. Moreover, under the present AEC program and policies the situation will grow comparably worse instead of better."

Hearings of the Joint Committee on Atomic Energy earlier this year provided other examples of politically-motivated criticisms by public power advocates. For instance, Andrew J. Biemiller, director of the AFL-CIO's Legislation Department, testified on February 28:

> . . . America's rate of atomic power development is still highly inadequate. The Government should undertake promptly to construct and operate several large-scale atomic power plants to gain the practical experience and knowledge necessary for the United States to be able to provide effective world leadership in this field and to provide needed impetus for development for domestic needs as well.

Similarly, Clyde Ellis, executive manager of the National Rural Electric Cooperative Association and professional pleader for public power, told the committee on the same day:

> . . . Our current atomic energy program has neither direction, purpose nor positive leadership; private industry is not in a position to develop the technology required for a successful atomic energy program; or phrased somewhat differently, the partnership approach advocated and used by the AEC has left much to be desired; and we will not achieve success in this program without greatly increased Federal expenditures and full and accelerated use of such existing Federal facilities as our national laboratories.
>
> As one informed observer of our atomic energy program pointed out in a speech at the 1958 annual meeting of the National Rural Electric Cooperative Association: "AEC has been using the partnership approach for several years and it has proved unsatisfactory. Its weaknesses cannot be cured by pumping in more public money. The basic flaw in the partnership program is that it has relinquished the initiative and the leadership to the private power corporations. These have neither the proper incentives, the technical competence nor the funds to do the job."

Private Industry's Approach

The private industry-AEC approach to nuclear power development might be described as working towards atomic "quality" as opposed to "quantity." The idea is to amass technical know-how through intensive research, with experimental reactors getting first priority. As the best types work out they become the basis for large-scale power-producing prototypes.

The idea of a "kilowatt race" is rejected because of the abundance of conventional fuels (coal, oil, gas) which, together with our advanced electric power technology, provide this country with the cheapest power in the world. Building a number of commercial-size reactors now would require "freezing" plans and specifications at a relatively primitive stage while the technology is still largely unexplored. Yet the building of some large-scale demonstration plants is a necessary step in advancing the nuclear power art. However, the economic considerations have to be weighed carefully, for such plants are very costly — particularly when construction schedules are accelerated ahead of the orderly course of technological development.

The inadvisability of a big reactor building program was pointed up by Philip Sporn, president of American Electric Power Company (formerly American Gas and Electric), in a speech in Florida April 1 before the Southeastern Electric Exchange:

> . . . we must be candid in acknowledging that there is no reactor or reactor concept presently known which gives firm promise of producing energy in the continental U.S. at a cost equal to or less than that produced by conventional fuels.
>
> • • •
>
> Today we are capable of building a conventional power plant of 200,000-kw size that will generate energy at about 4¾ mills per kwh in the most favorable fuel areas in this country or at about 7¾ mills per kwh in the least favorable fuel cost areas. . . . An optimistic projection at the present time would show that we could have, by 1966, a nuclear plant generating at perhaps 9¾ mills per kwh . . .
>
> . . . in order to develop a solid atomic power industry, intensification of research and development is the imperative need of the moment.

The situation is quite different, of course, in high-cost fuel areas such as Western Europe and the United Kingdom. Faced with shortages of conventional fuels, the U.K. has selected a basic type reactor best suited at this stage of nuclear development to its national needs and is building nuclear generating capacity far in excess of any contemplated in the U.S. It has been obliged to fix its design and try to improve that design, within its inherent limitations, rather than to delay selection so as to benefit from progress in basic technology.

A Vigorous Infant

This country's enviable conventional fuel position, of course, will not last forever; our coal deposits, while huge, are not limitless. Now is the time to "advance the art" of nuclear technology

so that we will be in a position to produce economic atom power when the need arises.

There are differences of opinion just when that date will arrive, but all parties are agreed it is a long way off. The Atomic Industrial Forum estimated recently, on the assumption of continued reductions in nuclear power costs, that of the 8.9 million kw. of new generating capacity to be installed between 1965-70 in high-cost fuel areas, some 75 per cent will come from atomic plants. Last fall, Interior Secretary Fred Seaton said that atom power will compete with conventionally produced power throughout the nation within two decades "if present trends continue." And Mr. Sporn, quoted above, foresees that by 1975 between 7 and 8 per cent of the electricity produced in this country will come from atom power plants.

In the meantime, while the industrial atom industry is only an infant it is a decidedly vigorous one. The electric utility companies' program includes 15 announced nuclear power plant construction projects involving a total utility company investment of over $520 million. The importance of such a saving to the federal budget – and to taxpayers – should not be overlooked. In addition, there are 12 other nuclear research, development and study projects calling for continuing expenditures of substantial sums of money. In all, 123 electric utilities are participating in the program.

The 15 atom plant construction projects undertaken by the utilities involve seven different types of reactors. Six of these types are to be utility owned; the seventh is owned by the AEC. Of the 15, three are in operation, six are either under construction or contract, and six are in various stages of planning. By the middle of 1962 it is expected that nine reactors, ranging in size from 10,000 to 275,000 kw. of electric capacity and aggregating 800,000 kw., will have been completed.

The three power reactors in operation are producing electric energy (71,500 kw. initial capacity) which is being distributed commercially over existing utility systems – the AEC-Duquesne Light Company plant at Shippingport, Pa., the world's first full-scale nuclear power plant exclusively for civilian use which was formally dedicated May 26; the General Electric-Pacific Gas and Electric plant near Pleasanton, California; and the AEC-Southern California Edison Company plant at Santa Susana, California.

By the end of this year, electric utility companies will have spent about $140 million in furtherance of nuclear power development. Another $100 million will be spent in 1959.

It should be emphasized that the AEC has played an important part in the development of civilian power reactors. In the fiscal 1956-59 period, it is estimated the AEC will have spent some $265 million on research, development, and construction of at least 12 different reactor types. In addition, it will have paid out some $38 million under the cooperative program with private electric utilities and public power agencies. Moreover, the free flow to industry of information developed through AEC research programs has been of immeasurable value.

AEC Chairman Lewis Strauss, reviewing "Atomic Power at the New Year" on January 8, noted:

> . . . the United States leads the world in the scope of its program for the development of safe, efficient and competitive nuclear power.
>
> Impartial testimony to this effect is to be found in a report issued in 1957 by "The Three Wise Men," the committee of experts representing EURATOM . . . The EURATOM leaders, after a thorough survey of atomic power development in the most advanced nations, reported: "An impressive amount of research and development done both through the AEC and private industry has provided America with the most complete nuclear foundation in the world."

What Role for Government?

In the battle over the industrial atom, public and private power advocates at least agree on one thing: there is no question but that the Government will continue to play some kind of role.

The very nature of the basic fuel – uranium – makes this inevitable. The same material and a great deal of the same knowledge can be used either to spin a turbine supplying power for the wheels of industry or to produce an atom warhead. Production and stockpiling of atomic weapons – and the need to keep abreast of all forms of nuclear technology – will be a continuing task for the Government.

Thus, the hard fact is that the Government will continue to be deeply involved in all areas involving the atom. The real question, then, is: What kind of a role will it play, how large, and by what means?

If the Government launches a reactor "crash program" and tries to do the whole job it will not only be costly for taxpayers but will retard advances in reactor design. As Francis K. McCune, vice president of General Electric Company, testified at the Atomic Energy Committee hearings March 4:

> Government ownership means that basic technical decisions will be made by a small group on a noncom-

petitive basis. It also means, in many cases, detailed, expensive and time-consuming supervision of the work. The country is likely to obtain better results if decision-making is decentralized and there is room for initiative and competition.

Congressman Carl T. Durham, Chairman of the Joint Atomic Energy Committee, has made the point even more succinctly: "The Government has no substitute for the cost cutting incentive of private investment."

Moreover, such a program would greatly expand government intrusion into the electric power industry. A Hoover Commission Task Force on Water Resources and Power reported in 1955: "In 1933, the installed capacity of Federal power projects was less than 1 per cent of the installed capacity of all private and public electric utilities in the country. By 1953, the Federal Government had become the largest single producer of electric power in the country, producing 13.1 per cent of all kilowatt-hours generated."

The Government's power activities have characteristically branched out beyond the original intent. TVA, for example, was sponsored as a river development project that also would market any surplus electric power produced *incidentally* at its dams. Private utility companies complain that today two thirds of TVA's generating capacity is in steam plants built solely for power supply and only one third is in hydroelectric plants. Similarly, REA cooperatives were created for the purpose of distributing electricity in rural areas where central station service was not available. The private utilities contend that some of these cooperatives now engage in activities ranging from attempting to connect customers already served by investor-owned companies to seeking franchises in good-sized communities served by utilities.

No Geographic Limitations

Up to now, federal power operations have been mostly confined in the TVA area and other river basins suitable for hydroelectric development. These geographic limitations, however, would not apply in the case of atom power plants. They could be built virtually anywhere and subsidized power could be sold to consumers anywhere.

Elmer L. Lindseth, president of Cleveland Electric Illuminating Company and chairman of the Edison Electric Institute Committee on Atomic Power, warned the Atomic Energy Committee on March 3:

> The electric power generating capacity in America today is already more than 23 per cent Government owned. Further expansion . . . is cause for alarm. We are today engaged in a bitter cold war with Russia over the philosophy of totalitarian versus democratic government. We must not defeat the very objectives we are trying to achieve in that cold war by abandoning our principles of free enterprise along the way.

The Atomic Energy Act of 1954 stated that the development, use and control of atomic energy shall be directed so as to ". . . strengthen free competition in private enterprise." Yet "preference clauses" in the Act run contrary to such principles. One such clause gives public power groups preferred consideration in granting of licenses for facilities to generate atomic electric power. The longtime "preference clause" gives priority to public power users and cooperatives in purchasing power produced in government-owned power plants which, of course, would include atomic plants.

Mr. Lindseth told the committee that 80 per cent of the people in America receive electric service from the investor-owned segment of the utility industry. He continued: "It is unfair, in principle and in practice, that . . . [these] citizens should be discriminated against in either the disposal of power generated or in the granting of licenses in favor of a 20 per cent minority who already in their electric bills bear less than that share of taxes and interest costs borne by the vast majority of our citizens."

A Job for Industry

For the years immediately ahead, continuance of the partnership between Government and private industry, with heavy emphasis on research and development looking toward achieving competitive costs, offers the best approach for meeting the economic challenges of nuclear power.

President Eisenhower emphasized the importance of private industry's role in October 1955:

> There is no monopoly — and we seek no monopoly — in the harnessing of the atom for man's benefit. Rather, we seek to encourage participation in that task. In particular, we want the maximum participation of American industry. Our standard of living is a product of its tools and techniques. The magnitude of the return which can be realized by the application of those same tools and techniques to the new field of atomic energy is immeasurable.

AEC Chairman Strauss summarized the Administration's position earlier this year in reviewing 1957 atom power accomplishments: ". . . [they] have been possible because of the way in which the outstanding skill of our scientists and engineers has been correlated with the leadership, organization and financial encouragement of the Federal Government, and the ingenuity, initiative, managerial capacity and capital investment of our free enterprise system."

The Government's role should continue to be confined mostly to providing research and de-

velopment assistance – though this approach will not be without its problems. As the Twelfth American Assembly session on "Atoms for Power" declared in December: "The dependence of private industry upon government assistance in atomic power development is inescapable. In such a situation there will remain for a considerable time the problem of finding a formula for equitable distribution of costs between the stockholder, the consumer, and the taxpayer."

Looking farther ahead, an independent nuclear power industry – free of government domination or subsidy – holds the greatest promise. Under our free enterprise system, power from conventional fuels has been developed to a state of efficiency that is the envy of the world. This same system, with its incentives and competition, offers the best hope for maintaining and extending our atomic power supremacy.

As Atomic Energy Committee Chairman Durham stated so effectively last September 18 before the Public Information Program of the Electric Industry in Detroit:

> . . . Electric power is a needed public service which the citizens of this nation can provide for themselves, under effective regulation. The notion that the federal government should build and operate generating stations just to have public power is the rankest kind of federalism, is wholly repugnant to our concept of free enterprise, won't assure the nation an adequate power supply, and generally weakens our economy by the unsound tax manipulation which results from federal power investment.

"Full Employment," Soviet Style

The Soviet Union has long boasted of its ability to provide "full employment" for its people and taunted the countries of the Free World on their recurring periods of unemployment. With the recession and rise in unemployment in the United States and other free countries, it is not surprising to find Soviet spokesmen drawing contrasts and deriding the free countries on the showing.

Allen Dulles, director of the Central Intelligence Agency, noted in a speech before the U.S. Chamber of Commerce April 28:

> Every Soviet speech, magazine article, or radio broadcast beamed to the underdeveloped nations plays up and exaggerates our economic difficulties. The uncommitted millions are being told by the Communists: "See, we told you so. Crises and unemployment are inevitable under capitalism. Communism is the only true road to social progress."
>
> Our economy is giving the Communists a propaganda target as damaging, and I trust, as transitory as their own sputniks.

Examples of this Soviet strategy crop up in the daily press from time to time. Thus, on April 8 the *New York Times*, in a dispatch from Moscow, reported that the Communist Party has played up the recession "crisis" in this country:

> . . . *Pravda* [the party newspaper] seemed to take special delight in citing United States unemployment statistics and in quoting United States economists on the dangers of the current economic situation.

Deputy Premier Anastas I. Mikoyan noted in a speech March 11 at the Armenian capital of Erivan:

> The year 1957 was marked by an outcropping of new difficulties in the economies of the capitalist states. Capitalism's leading country has again been struck by a crisis of overproduction, which, moreover, is deeper and apparently more long-lasting than the preceding crises of 1948 and 1954.

Later, in discussing democracy and freedom, Mr. Mikoyan asked:

> What sort of liberties, what sort of rights do the 5,000,000 unemployed Americans now have? They have lost their right to work. Do they have the right to leisure, to study, to health protection?

An unemployed American has all these rights – plus the right and obligation to seek productive work of the sort he would like to have and for which he can qualify. Moreover, the average industrial worker in this country, temporarily out of work, can buy more with his unemployment compensation benefits than the average employed Soviet worker can buy with his wages.

There should be no illusion as to what regimented "full employment" means under the Communist system. As Gabriel Hauge, Special Assistant to the President, noted not long ago: "It would be no trick for us to abolish unemployment in the Soviet fashion by abolishing free enterprise and chaining every worker to a State-controlled job. You don't have to ask free American labor why they reject that solution with the virtual serfdom and accompanying low wages it would entail."

Example from Poland

Fortunately it is possible, now and then, for truth to slip through the Iron Curtain. For instance, Edward Crankshaw, writing last month in the London *Observer* (the article was also carried in the May 6 *New York Herald Tribune*), reported that the Soviets have some unemployment problems of their own:

> The industrial areas of European Russia are beginning to pile up unemployment among the young. It was reported at the recent congress of the Ukrainian Komsomol that 17 per cent of last year's secondary school leavers had been jobless for more than six months.
>
> Factory directors, with the fulfillment of their "plans" to think of, were refusing to take on young trainees. So

much so that in September of last year *Pravda* was urging that every factory should be compelled to employ an agreed quota of new recruits. This "solution" has not worked.

Another example, bearing on "full employment," appears in a dispatch from *New York Times* correspondent Sydney Gruson – writing from Warsaw February 27.

According to Mr. Gruson, Poland's ruling Communist party has decided to dismiss "superfluous" industrial workers. The number, we are told, may go up to 200,000, principally from the iron and steel and machinery industries. "This politically explosive" decision was announced at the opening session of a plenary meeting of the United Workers (Communist) party's Central Committee by Stefan Jedrychowski, Politburo member and chairman of the Economic Council. Mr. Gruson continues:

> A hot dispute on the question has raged for many months among economists and politicians. One group maintained that a Socialist state could not challenge the jealously guarded thesis of full employment. The group whose view prevailed said the step was imperative for putting industry on a sound profitable basis.

According to reports of the meeting, no mention was made of the unemployment threat posed by the decision. The authorities spoke merely of "shifting workers to other fields." However, no one, asserts Mr. Gruson, seriously denies that considerable unemployment may result this year from the party's determination to reduce "the huge staffs cluttering Polish factories."

Possibly, as Mr. Gruson says, the decision to face up to the economic facts of life "took political courage." For observers in the Free World, however, chief interest in the episode lies in its revelation of what passes for "full employment" in the Communist scheme of things.

"Concealed" Unemployment

On this point the most shattering testimony is that of the former Communist leader and Vice President of Yugoslavia under the Tito regime, Milovan Djilas. For criticizing the regime, this lifelong Communist was expelled from the Party in 1954, and later sentenced to prison. In his expose of the Communist world, *The New Class*, written before his imprisonment and published last fall, Mr. Djilas comments on "full employment" in Communist systems as follows:

> The great boast that there is full employment in Communist systems cannot hide the wounds which become evident as one looks more closely. As soon as all material goods are controlled by one body, these goods, like manpower needs, must become the subject of planning. Political necessities play an important role in planning and this unavoidably results in the retention of a number of branches of industry, which survive at the expense of others. Thus planning hides actual unemployment. . . .
>
> . . . full employment is not the result of Communist "socialism" but of an economic policy carried out by command; in the final analysis, full employment is the result of disharmony and production inefficiency. It does not reveal the power but the weakness of the economy. . . .
>
> In Communist economies full employment conceals unemployment. The poverty of all conceals the unemployment of some, just as the phenomenal progress of some sectors of the economy reveals the backwardness of others.

These observations from a former Communist high official, in conjunction with incidents such as those described in the press dispatches from London and Warsaw already quoted, are worth keeping in mind. There undoubtedly will be further efforts by Moscow to exploit temporary unemployment in the democracies where the figures come out into the open, as opposed to the concealed unemployment represented by people retained in needless jobs or committed to forced labor.

Depreciating Money

In our issue for December 1956, under the heading of the "The Cost of Depreciating Money," we published a table comparing, for 16 countries, rates of interest and depreciation of money over the period of 1946-56. This tabulation evoked so much interest that we have calculated figures for 24 countries over the ten-year period 1947-57.

The depreciation of money is measured in each case by the rise in the official cost of living or consumer price index.

Rates of Interest and Depreciation of Money

	Indexes of Value of Money*		Annual Rate of Deprec. (comp'd.)	Rates Offered on Gov't. Bonds†	
	1947	1957		1947	1957
Switzerland	100	89	1.2%	3.17%	3.65%
Germany	100¶	87	1.5	n.a.	5.50
Venezuela	100¶	87	1.5	5.00	6.00
United States	100	80	2.2	2.25	3.47
India	100	79	2.3	2.86	4.13
Belgium	100	77	2.6	4.45	4.69
Italy	100	74	3.0	4.43	6.81
Canada	100	70	3.5	2.57	4.17
Denmark	100	69	3.6	3.65	5.77
Norway	100	67	4.0	2.50	3.12
South Africa	100	66	4.0	2.63	4.75
Netherlands	100	65	4.1	3.06	4.58
Sweden	100	65	4.2	3.02	4.33
United Kingdom	100	62	4.7	2.76	5.01
New Zealand	100	61	4.8	3.00	4.82
France	100¶	56	6.2	3.91	5.92
Mexico	100	49	6.9	9.94	10.32‡
Uruguay	100	47	7.3	5.09	5.61
Australia	100	46	7.5	3.17	5.02
Finland	100	39	8.9	n.a.	8.00
Peru	100	37	9.5	6.66	7.69
Brazil	100	28	12.1	n.a.	12.00
Argentina	100	16	16.5	3.20	3.28
Chile	100	5	25.5	9.40	12.58

Note: Depreciation computed from unrounded data; n.a. not available; * measured by rise in official cost of living or consumer price index; † except for mortgage bond yield in Germany, commercial paper in Mexico, and prime loan rate in Brazil, Chile, Finland, and Venezuela; ‡ 10-month average; ¶ 1948.

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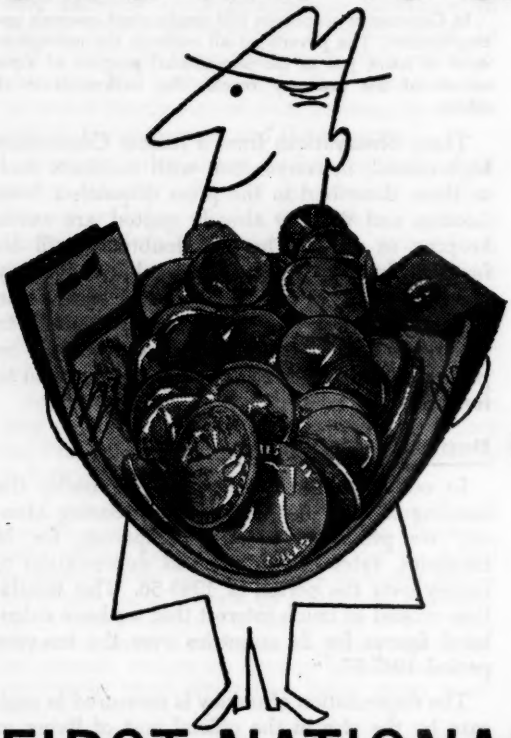

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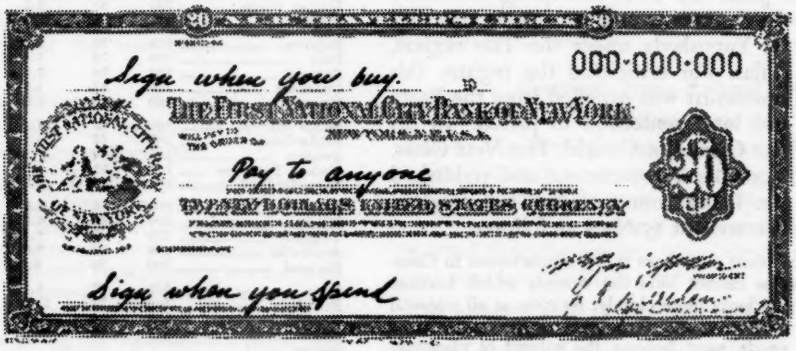

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